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Financial Markets

Irving Trust

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There wasn't much Thanksgiving spirit in the credit markets this week, as trading thinned around the holiday (which many extended into a four-day weekend, cutting volume further), and as markets chose to look on the dark side wherever possible. The discount rate cut was poorly received, with rates on many instruments rising early in the week. Later on, some improvement occurred as Federal funds remained well below 9%, but even this didn't put much steam in the markets, and many rates closed above week-ago levels. Next week, the climate could brighten remarkably if funds remain low; but until then, "glum and inconclusive" sums up market mood.

The long-awaited half-point cut in the discount rate to 9% didn't produce even the very modest positive response that we expected. Some rates did back off in late-Friday trading just after the announcement; but by the time markets opened up on Monday, dealers had evidently reconsidered, and the general structure of rates (though not Fed funds or CD rates) backed up significantly. Bond prices were hit, with the price on the new 30-year government bond falling by over a point. Why the negative response? Presumably, the discount rate cut had been more than fully discounted, with some bets placed on a full-point cut. Also, the delay in the move may have prompted fears that it was the last in a series.

To some extent, those fears were offset by the behavior of the Federal funds rate. For several weeks up to mid-November, funds traded in a range around 9.5%. Late last week, however, the funds rate began to ease, and that move continued this week with funds moving into an 8%-8.5% range. The jury is still out, however, on whether or not the downward move will last. Markets have been misled before by temporary swings in funds that have turned out to be the result of technical factors rather than of changes in Fed policy, and markets this week were in no mood to take big chances on what could be simply a temporary aberration.

The "real" level of Fed funds will be tested next Monday and Tuesday. The current statement week is one in which projections show a substantial Federal Reserve "add" need--that is, one in which reserve flows are such that the Fed will have to supply substantial liquidity to the reserves market if the Fed funds rate is not to rise. Wednesday is the last day of the statement week, with Fed activity expected before that point. If the funds rate, therefore, remains well below 9% in Monday and Tuesday trading, markets are likely to take this as a sign that the Fed really does find a lower funds rate acceptable, and a positive response is likely.

Trading early next week, then, should give some sense of direction to this week's inconclusive pattern. Confirmation of a lower funds rate will create expectation of another discount rate cut; waiting for that could keep markets busy until trading slows to a trickle around Christmas. A move back up in Federal funds would be likely to produce a continuation of this week's depressed tone. Whichever way it goes, the focus is likely to remain on the discount rate/Fed funds nexus until the new year, when the convening of the new Congress may focus attention on possible jobs spending, defense cuts, and Treasury financing prospects.

Anne Parker Mills

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Market Yields

	11/26/82 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.50%	12.00%	16.50%
Effective since	11/22/82		
Discount Rate at Federal Reserve Bank	9.00	9.50	13.00
Federal Funds	8.25	9.00	12.50
Repurchase Agreements	8.25	8.88	11.00
U.S. Treasury Issues			
Bills			
3 months	8.25	8.34	10.43
6 months	8.68	8.63	11.27
1 year	9.08	8.98	11.59
Coupons			
2 years	9.79	9.73	12.16
4 years	10.35	10.21	12.86
7 years	10.69	10.53	13.20
10 years	10.58	10.40	13.04
Long Bond	10.50	10.32	13.03
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.40	8.85	11.80
3 months	8.60	8.95	11.75
6 months	8.95	9.05	11.90
1 year	9.30	9.40	12.40
Banker's Acceptances			
1 month	8.40	8.90	11.71
3 months	8.65	9.00	11.63
6 months	8.95	9.05	11.75
Eurodollar Deposits			
1 month	9.00	9.56	12.38
2 months	9.50	9.63	12.44
3 months	9.75	9.81	12.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.13	8.50	11.38
1 month	8.25	8.75	11.38
3 months	8.38	8.63	11.38
Bank Holding Companies			
1 month	8.25	8.63	11.25
Dealer Placed:			
3 months	8.13	8.38	11.70
New AA Corporate Utility Bond	11.95	11.80	15.38
Tax Exempt			
6 month Project Notes	4.55	4.85	6.60
1 year AAA Bond	5.25	5.50	7.75
5 year AAA Bond	7.30	7.00	8.40
20 year AAA Bond	9.00	9.50	11.00

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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